Intersections and Innovations

Change for Canada's Voluntary and Nonprofit Sector

The Muttart Foundation

ISBN: 978-1-897282-30-4

The Muttart Foundation

Acknowledgements

For far too long, Canada has lacked a comprehensive resource examining Canada's charitable sector. That has now ended.

The Muttart Foundation has spent many years focusing on building the capacity of charities in this country. The publication of this collection is another contribution to that effort. By understanding more about itself, the sector can continue to develop and find new ways to serve Canadians and those in need outside our nation.

The authors of these essays bring different perspectives on the role and inner workings of Canada's charities. Collectively, they bring an unprecedented insight into the work of organizations whose diversity is exceeded only by their desire to serve.

It is difficult to express adequate appreciation to Dr. Susan Phillips of Carleton University for her leadership of this project. She has been a source of encouragement, persuasion, cajoling and improving authors from across the country. Her efforts now bear fruit as we make this material available to students, academics, practitioners and others interested in the history and future of Canada's charities.

Amanda Mayer of the Lawson Foundation volunteered at the outset to be the administrative overlord of the project, keeping the editors and authors up to date and keeping track of various versions of articles. We are so grateful for her skills, her patience and her friendship.

None of this would have been possible, of course, without the work of authors, themselves academics and/or practitioners. They took time from their schedules to contribute to a resource we hope many will find valuable.

Lesley Fraser did an incredible job in editing the various chapters and ensuring consistency. And Don Myhre of P40 Communications has again brought his talent to the fore in providing an attractive design for a Muttart publication.

The work of all of these individuals has come together in this resource which we dedicate to all of those in, or interested in, Canada's charitable sector.

Malcolm Burrows, President

Bob Wyatt, Executive Director

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This book may be cited as:

Phillips, Susan D. and Wyatt, Bob (Eds) (2021) *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Individual Chapter Citations

Chapter 1

Phillips, Susan D. and Wyatt, Bob (2021) Intersections and Innovations: Change in Canada's Voluntary and Nonprofit Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 2

Lasby, David and Barr, Cathy (2021) State of the Sector and Public Opinion about the Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 3

Marshall, Dominique (2021) Four Keys to Make Sense of Traditions in the Nonprofit Sector in Canada: Historical Contexts. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 4

Wyatt, Bob (2021) It Should Have Been So Simple: The Regulation of Charities in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 5

Chan, Kathryn and Vander Vies, Josh (2021) The Evolution of the Legal Meaning of Charity in Canada: Trends and Challenges. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 6

Manwaring, Susan and Kairys, Katrina (2021) Regulating Business Activity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 7

Phillips, Susan D., Dougherty, Christopher, and Barr, Cathy (2021) The Fine Balance of Nonprofit Sector Self-Regulation: Assessing Canada's Standards Program. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 8

Charters, Owen (2021) Board Governance in Practice. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 9

Grasse, Nathan and Lam, Marcus (2021) Financing Canadian Charities: The Conditional Benefits of Revenue Diversification. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 10

Hale, Sharilyn (2021) Giving and Fundraising Trends. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 11

Glogovac, Marina (2021) New Technologies and Fundraising. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 12

Fontan, Jean-Marc and Pearson, Hilary (2021) Philanthropy in Canada: The Role and Impact of Private Foundations. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 13

Khovrenkov, Iryna (2021) Canada's United Way Centraide as a Community Impact Funder: A Reinvention or a Failed Endeavour? In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 14

Harji, Karim and Hebb, Tessa (2021) Impact Investing in Canada: Notes from the Field. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 15

Raggo, Paloma (2021) Leadership in the Charitable Sector: A Canadian Approach? In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 16

Fredette, Christopher (2021) Planning for Succession in the Interests of Leadership Diversity: An Avenue for Enhancing Organizational Diversity, Inclusion, and Equity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 17

Akingbola, Kunle and Toupin, Lynne (2021) Human Resource Management in the Canadian Nonprofit Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 18

Uppal, Pamela and Febria, Monina (2021) Decent Work in the Nonprofit Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 19

Thériault, Luc and Vaillancourt, Yves (2021) Working Conditions in the Nonprofit Sector and Paths to Improvement. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 20

Russell, Allison, Speevak, Paula, and Handy, Femida (2021) Volunteering: Global Trends in a Canadian Context. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 21

Shier, Micheal L. (2021) Social Innovation and the Nonprofit and Voluntary Sector in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 22

McCort, Kevin and Phillips, Susan D. (2021) Community Foundations in Canada: Survive, or Thrive? (with apologies to lawn bowlers). In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 23

Murphy, Colette (2021) Community Wealth Building: A Canadian Philanthropist's Perspective. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 24

Doberstein, Carey (2021) Collaboration: When to Do It and How to Do It Right. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 25

Munshi, Shereen and Levi, Elisa (2021) Indigenous Peoples, Communities, and the Canadian Charitable Sector. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 26

Stauch, James, Glover, Cathy, and Stevens, Kelli (2021) The Business–Community Interface: From "Giving Back" to "Sharing Value." In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 27

Laforest, Rachel (2021) Transforming Health and Social Services Delivery Systems in Canada: Implications for Government–Nonprofit Relations. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 28

White, Deena (2021) Contentious Collaboration: Third Sector Service Delivery in Quebec. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 29

Levasseur, Karine (2021) Policy Capacity: Building the Bricks and Mortar for Voluntary Sector Involvement in the Public Policy Process. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector.* Edmonton, AB, Canada: Muttart Foundation

Chapter 30

Houston, Sandy (2021) Evolving Relationships with Government: Building Policy Capacity. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 31

Northcott, Allan (2021) Reflections on Teaching Public Policy Advocacy Skills. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 32

Lauzière, Marcel (2021) A Lever for Change: How Foundations Can Support Public Policy Advocacy. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 33

Ruff, Kate (2021) Social and Environmental Impact Measurement. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 34

Lenczer, Michael, Bourns, Jesse, and Lauriault, Tracey (2021) Big Data Won't Save Us: Fixing the Impact Evaluation Crisis. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 35

Herriman, Margaret (2021) Social Media and Charities in Canada. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Chapter 36

Riseboro, Caroline (2021) The Overhead Myth: The Limitation of Using Overheads as a Measure of Charity Performance. In Susan D. Phillips and Bob Wyatt (Eds.), *Intersections and Innovations: Change for Canada's Voluntary and Nonprofit Sector*. Edmonton, AB, Canada: Muttart Foundation

Part II Navigating a Changing Environment

Governance and the Regulatory Environment

The Funding Environment

The People Environment: Leaders, Employees, and Volunteers

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The Funding Environment

Chapter 14

Impact Investing in Canada: Notes from the Field

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Tessa Hebb, Carleton University

Impact investing refers to investments made with the intention to achieve a measurable social or environmental impact alongside a financial return to the investor (GIIN, 2018). Impact investments can take a number of forms, including loans for working capital or asset purchases or equity investments for ownership stakes in social enterprises. Unlike grants and contributions or philanthropic gifts, however, they are repayable to investors. Investing for non-financial return is nothing new, and arguably can be traced back to the founding of the modern corporation itself (Bugg-Levine & Emerson, 2011). In Canada, such practices have existed for decades within the credit union, social economy, and community economic development sectors (Harji & Hebb, 2010). The term "impact investing" was formally coined in 2008, signalling the rise of interest on an international scale. Following a significant injection of financial, social, and political capital by the Rockefeller Foundation and other influential actors over the subsequent decade, the term has now entered the vocabulary of mainstream finance, public policy, and philanthropy (Harji & Jackson, 2012).

Impact investing, sometimes called social finance, can be situated within a broader spectrum of approaches that integrate private capital, multi-sector participation, and business-oriented language and strategies. These include "responsible investing," which integrates environmental, social, and governance (ESG) factors in investment decision-making and can include investment practices such as negative and positive screening and shareholder advocacy. Impact investing is a growing phenomenon in Canada, driven by a confluence of factors. The continued reduction of government funding for the nonprofit and charitable sector and a shift away from grants and contributions as a funding method toward fee-for-service contracts (Phillips, 2006; Phillips & Hebb, 2010) – which began in the 1990s and continued through the 2000s – have pushed nonprofits to diversify their income streams. Simultaneously, foundations and other institutions holding endowments and large pools of capital realized that if they could align their missions with their investment policies, they could use all the financial assets at their disposal to help achieve their goals. In recent years, governments and private investors in many countries have recognized the value of stimulating social finance markets so as to inject more private capital to address social needs.

Those in Canada interested in this emerging approach looked to the UK and US for comparable models, programs, and policies. Both were 10 years ahead of Canada in promoting social finance, partly as a result of government regulatory intervention and leadership from the foundation sector, and they could provide valuable lessons on how to advance practice and policy. In late 2010, the Canadian Task Force on Social Finance released a report detailing seven major recommendations that would advance impact investing in our country. Modelled on a similar initiative undertaken a decade earlier in the UK, the recommendations described concrete actions and targets that foundations and endowments, pension funds, government, and the sector itself could undertake.

By 2014, in part spurred on by follow-up work (Task Force, 2011), impact investing increased in Canada. Most of this activity took the form of small pilot projects designed to test the market and early engagement by a diverse range of actors, including credit unions, foundations, social enterprises, and various levels of government (Harji & Reynolds, 2014). While such activity was an important first step, this period can best be described as an uncoordinated marketplace (Freireich & Fulton, 2009). In a 2014 review of impact investing in Canada, we (Harji & Hebb, 2014) recognized this period of iterative experimentation and called for a more deliberate approach to the design, implementation, and evaluation of impact investment policy and practice. Around this time, there was also more deliberate exploration within the policy and political arenas (McColeman, 2015).

In 2017, a new task force commissioned by the federal government was struck, and a year later, the Steering Group on Social Innovation and Social Finance Strategy released its report, which included 12 recommendations to advance social finance in Canada (Steering Group, 2018). Eight years after the original task force report, many of these 2018 recommendations echoed the same calls for action. Specifically, it asked the federal government to "acknowledge the important contribution that charities, non-profits and co-operatives and mutuals make to Canadian society" and called for cross-sectoral collaboration to "breach the perceived walls between the structures and motivations of the charitable and non-profit, private, and public sectors" (Steering Group, 2018: 4). It also identified six critical gaps faced by social purpose organizations that should be addressed and acknowledged that the "journey [to implement the report's recommendations] will be challenging."

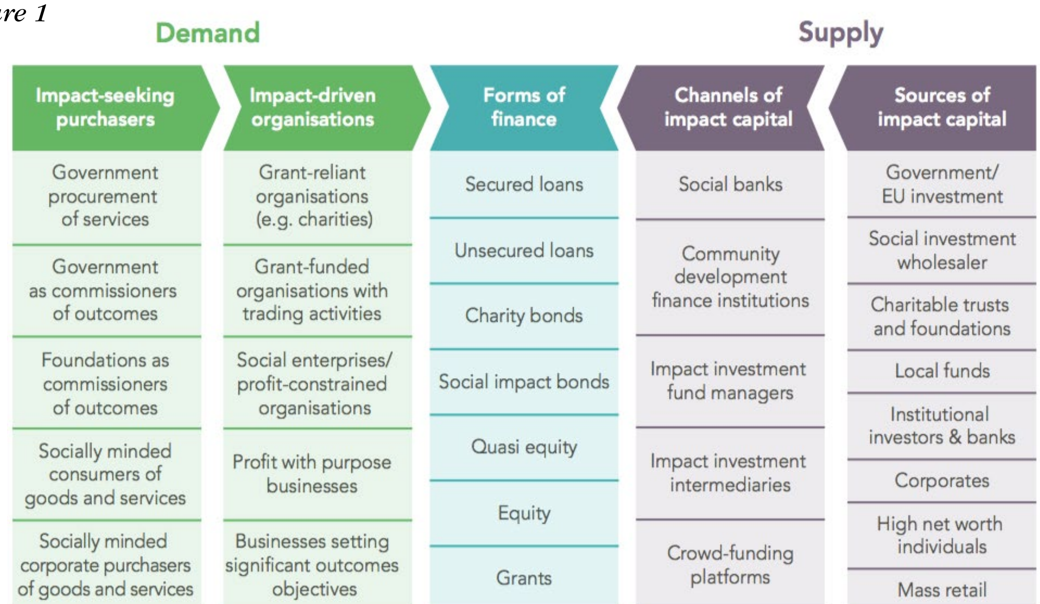
Subsequently, in the 2018 Fall Economic Statement, the Government of Canada committed up to $755 million in repayable finance over 10 years for a Social Finance Fund and an additional $50 million in grants and contributions for an Investment and Readiness program to build requisite capacity in the sector. These announcements represent the largest potential injection of new capital into impact investing and social finance in Canada, and with it, the promise of an acceleration of the trends and opportunities we describe in this chapter. However, it is important to underscore that while access to capital is a necessary condition to move to a coordinated impact investing market, it is not a sufficient condition. There remain a number of important and unresolved questions relevant to the nonprofit and charitable sector that are fundamental to unlocking the potential of impact investing in Canada. We ask, and respond to, three of these key questions in this chapter: In what ways has a deliberate approach to impact investing been designed and implemented in Canada? What have been the results and lessons, and what challenges still exist? Looking ahead, what will it take for the sector to be effective in making use of the new injection of funding and the momentum of a growing social finance market?

In the next section, we review the key developments in the Canadian impact investing ecosystem over the past decade and ask whether we have moved to a coordinated approach to market development. We then examine the macro- and micro-challenges that persist in building a coherent approach, and subsequently situate the prominent tensions that may be amplified within the nonprofit sector as impact investing continues to grow. The chapter closes with our assessment of strategies and opportunities to promote the development of impact investing in Canada and the participation of the nonprofit sector within it.

The Impact Investing Ecosystem

Impact investing in Canada is growing at an impressive rate. It was estimated at $9.2 billion in 2016 (RIA, 2016) and rose to $14.75 billion two years later (RIA, 201). These assets are part of a complex ecosystem that requires coordination among the supply of capital, the demand for the capital, and the intermediaries and enablers that link them (Harji & Hebb, 2010; 2014). No one component of the system can exist without the simultaneous engagement of the others. In a departure from the traditional segregated system of addressing societal needs, with clear distinctions of the roles of the nonprofit, public, and private sectors, the dual mandate to seek both financial returns and social impact invites collaboration across these sectors, not just within them. Figure 1 illustrates the impact investing ecosystem and the various actors who engage each other in multiple combinations.

Figure 1



(Source: G8 Social Impact Investment Taskforce (2014), *Impact Investment*)

This framework distinguishes investors that are seeking impact (the "supply side") from organizations that are delivering impact ("the demand side"). Governments, foundations, impact funds, institutional investors (such as pension funds), financial institutions, high-net-worth individuals, and retail investors are typical sources of impact capital. Canadian private and community foundations have been leaders in promoting impact investing, with both a significant allocation of capital assets (approximately $2 billion) in impact investments (RIA, 2016) and as an amplified influence in how the industry has evolved (Purpose Capital, 2017). Impact-driven organizations include revenue-generating nonprofits and charities, social enterprises (under various legal forms), and social businesses, as long as their business models and services can generate financial returns. The purchasers of impact-oriented services include governments (either as procurers of services or as commissioners of outcomes), foundations, socially minded consumers, and corporate purchasers.

The forms of financing available to impact-driven organizations are diverse, ranging from loans and bonds to equity and equity-like hybrid structures such as revenue-based financing arrangements and convertible debt notes. The channels of capital are equally varied and include credit unions, community development institutions, impact investment fund managers and intermediaries, and crowdfunding platforms.

Impact investing has the potential to contribute to the sustainability of nonprofits and social enterprises (Weber & Geobey, 2012); however, robust estimates of demand for impact investment have been elusive. The *Canadian National Social Enterprise Sector Survey Report* included 1,350 social enterprises across Canada with cumulative sales of goods and services of at least $828 million (Elson et al., 2016). The potential demand across the nonprofit and charitable sector is harder to determine, although Imagine Canada's 2013 survey found that between one-half and three-quarters of charities engage in some form of earned income-generating activity (Lasby, 2013).

Innovations and Opportunities

A hallmark of impact investing is the development and adoption of financial innovations that optimize for both financial returns and social impact. As expected in any nascent industry, some of these innovations will strengthen or evolve over time, while others will fail. For example, new fund managers entering the market have been able to mobilize capital from retail investors and accredited and institutional investors, on both concessional ("impact first," below market) and market-rate terms (Open Impact, 2018). These offerings target a range of social and environmental sectors, including affordable housing, Indigenous businesses, renewable energy, healthcare, and food security. Investment product offerings include green bonds, community bonds, private equity funds, and social impact bonds, as discussed later in this chapter.

New organizational forms and structures, particularly on the demand side, have also emerged in response to the hybrid nature of impact investing. In British Columbia, "community contribution companies" (CCCs) encourage an institutionalized balance between financial returns and social objectives with a limit on profit sharing. In Nova Scotia, a similar corporation category – the "community interest company" – was created in 2016 to allow the incorporation of companies driven by profit motive and community purpose. In addition, certified B Corporations – administered by the B Lab nonprofit – have also gained traction across Canada, with more than 120 registered B Corps that infuse their social mission into their articles of incorporation, providing annual verification and reporting to maintain their certification.[1]

Social purchasing and procurement are important components of the impact investing ecosystem (Hebb & Hachigian, 2017). As purchasers, governments and major institutions such as universities and hospitals use their vast procurement budgets to include tendering from social enterprises and nonprofits, as well as embedding requirements for other community benefits in their contracts for goods or services. In Canada, the negotiation of community benefit agreements (CBAs) was pioneered leading up to the 2010 Olympics in Vancouver and the 2015 Pan Am Games in Toronto, and was adopted in one of the largest infrastructure projects to date, the Crosstown (Eglinton) transit line in Toronto. In 2017, Ontario became the first jurisdiction in North America to legislate a commitment to include CBAs in all major publicly funded infrastructure projects (Government of Ontario, 2017). The inclusion of these mission-driven entities in contracting arrangements can help build the market for social enterprises, enabling them to generate streams of revenue that can be used to attract private impact investors.

New impact-investment networks have also evolved. Many of these are in Quebec, which is the source of some of the most vibrant impact investing activity in the country. Such networks include the Fiducie du Chantier de l'économie sociale (Fiducie), which invests in collective enterprises and nonprofits in the province via a multi-stakeholder approach – providing a total of $49 million in 153 organizations to date. It is "an excellent example of meeting the combined need for institutional and financial innovation: a new investment vehicle or product and a new institutional and organizational framework of governance" (Mendell & Barbosa, 2013: 114–115).

Finally, innovative impact investing platforms are emerging. Among the most prominent is the Social Venture Exchange (SVX), housed at the MaRS Centre for Impact Investing. The SVX provides a listing platform for investment in mission-driven organizations, connecting them with impact investors. This innovative platform demonstrates the power of perseverance in the ecosystem, as it took more than 10 years to bring the SVX from ideation to implementation, despite significant philanthropic investments and high-profile institutional sponsorships. These types of platforms have an important role to play in bridging the demand and supply sides of the market while also reducing the search and transaction costs for investors, particularly at scale (Bugg-Levine & Emerson, 2011).

Unfulfilled Potential?

Societal Challenges in Market Building

Despite the early promise of impact investing as a tool to address society's wicked and complex problems (O'Donohoe et al, 2010; Freireich & Fulton, 2009) and the optimism we detailed in our previous work (Harji & Hebb, 2014), the last few years have demonstrated that the road to a robust, coordinated marketplace is a bumpy one, in Canada and beyond. While social finance and responsible investing continue to grow impressively globally and in Canada (RIA, 2016; RIA, 2019), it is evident that there remains a sizable gap between the initial expectations set by market leaders and the current reality of the impact investing market.

We should be aware of the broader context within which impact investing has been situated over this last decade. While the dynamic nature of capitalism propels our economy forward, inequality is an ever-present by-product of this system (Piketty, 2014). From 1997 to 2007, the richest 1% of Canadians received almost a third of all income gains (Yalnizyan, 2010). Many of our intractable social problems, including homelessness, health, hunger, recidivism, and addiction, remain deeply rooted in issues of poverty and inequality. There are some who feel that if, as a society, we are not prepared to address issues of systemic poverty and inequality, impact investing cannot effect the necessary changes within our economic system to be truly meaningful (Giridharadas, 2018).

Impact investing is predicated on the idea that investors can "do well and do good" at the same time (Porter & Kramer, 2011). It seeks to move away from the binary view of capitalism, with its winners and losers, to one of "shared" or "blended" capital (Bugg-Levine & Emerson, 2011). But many refute the idea that social issues can be solved through private investment (Edwards, 2010; Giridharadas, 2018). This view holds that high-tech billionaires such as Bill Gates, Mark Zuckerberg, Pierre Omidyar, and Jeffrey Skoll, whose prescription for civil society is to act more like business, are wrong. The role of civil society, argues Michael Edwards (2010), is to challenge capitalism, not acquiesce to it. Giridharadas (2018) is even more scathing: he claims these approaches reinforce the inequalities of wealth and power.

Coupled with growing economic inequality, and perhaps in reaction to it, is an increasing politics of fear and resentment and the growing nativism that accompanies it. While we see this clearly in the current US political system, it is also present in Canada, Europe, Asia, and beyond. Such a political shift also acts as a barrier to impact investment because it increases the sense of risk embedded in traditionally underserved communities while decreasing the collective response needed to address many of these issues. Such political forces push us toward individual solutions, with each of us responsible for our own lot in life.

The early pioneers of impact investment did not anticipate the myriad social issues evident in the adoption of Brexit, the election of Donald Trump, the Rohingya expulsion, or the Syrian refugee crisis, to name just a few. It could be argued that impact investing is designed to appeal to our "better angels" rather than to baser human instincts. In many ways the "sunny days" of 2015, with the collective optimism for impact investing, already seem far behind us, and this shift in political mood, reflected in recent provincial elections in Canada, is slowing the adoption of impact investment.

But all is not lost. While impact investing should not be seen as a panacea for all that ails us, it is a useful tool to address the specific issues for which it is designed. Increasingly, new private investment opportunities are being developed for affordable housing, social enterprises, sustainable agriculture, green bonds, and renewable energy, for example. If we curtail our rhetoric about the value of impact investing and focus on the specific uses of this tool, it is possible to move toward achieving a coordinated impact investing marketplace – though, as we see in the next section of this chapter, not without addressing challenges.

Structural Challenges in Market Building

Although the promise of impact investing has not yet been fully realized in practice, there are some encouraging signs, notably in terms of awareness and interest from philanthropists, investors, financial institutions, and governments. As a result, there appears to be more capital poised to be deployed in this way. It is unclear, however, how much of this capital has actually been used, or returned. More pointedly, there are still significant gaps in several areas, both in Canada and globally (Wilson et al., 2015). These include a limited understanding of the demand for this capital, especially from the nonprofit sector; a fragmented set of institutions and enablers to match demand and supply; an undeveloped policy and regulatory regime that has not kept pace with this interest; and a need for more reliable impact measurement to provide confidence and comparability across the market.

In this section, we explore several structural barriers that still exist in this market-building phase. While several of the challenges are applicable to other comparable markets, such as Australia (Addis et al., 2013), some aspects are unique to Canada.

Inordinate Emphasis on the Supply of Capital

There has been a disproportionate focus on the "supply side" of capital – that is, increasing the amount of capital from investors and convincing them to signal their willingness to deploy impact capital. The sources of this capital are varied, and it is important to distinguish among them: the shorthand of "investors" can refer to either asset *owners* (such as high-net-worth individuals deploying their own capital) or asset *managers* (such as pension funds managing capital on behalf of a constituency group). This distinction is important in clarifying investors' motivations, which influences the forms of capital they deploy, and their return expectations (Impact Management Project, 2018a). The delineation is not always obvious, however. For example, a financial institution may act as an asset owner when using its own capital or as an asset manager when investing on behalf of clients. Similarly, private foundations often identify as asset owners, but public foundations will likely identify as asset managers – though both receive tax exemptions in exchange for acting on behalf of public interest.

The disproportionate focus on the supply side raises a number of issues. The development of impact investing has been influenced by the preferences of these investors, who have been perceived as being risk-averse, having a relatively short time horizon (for financial repayment), and seeking financial returns that are comparable to conventional investments (based on comparable asset class profiles). Even private and public foundations, which have been influential actors in both deploying capital and building the market, tend to have investment committees that are risk-averse. This is partly due to how they define the terms of "fiduciary duty" as it applies to impact investments, as well as how they make decisions about their expectations for return, risk, and impact in the absence of comparable benchmarks (especially on impact). These preferences do not necessarily match the needs from the demand side and thus reduce access to such capital or increase its cost. As a result, there has been a heavy emphasis on "de-risking" through the use of guarantees, credit enhancements, and technical assistance facilities.

Inadequate Understanding of the Demand for Capital

A major impediment to the growth of impact investing is a lack of reliable data and multi-sector knowledge about the market(s). The overall picture of demand for impact investing is incomplete, and Canada remains a subset of regional markets – each with its own distinctive characteristics, regulations, and needs – rather than a coherent national market. And while there are some recognizable subsectors where impact investing can play (and is playing) a role – affordable housing, renewable energy, and sustainable agriculture are among the most obvious examples – other areas such as Indigenous social finance require a more nuanced understanding of both the potential applications and risks of this approach (Longaphy & Boggild, 2017).

Another challenge on the demand side relates to financial literacy and capacity as it applies to the concept of repayable finance (Phillips & Johnson, 2019). While these are issues that are of concern more broadly, the retrenchment of traditional government and philanthropic flows has increased the strain that nonprofits and charities face in maintaining or increasing their funding. Risk aversion is also a big factor on the demand side, particularly by nonprofit boards, which often would rather restrict programs than take on debt for their organizations. Repayable capital requires a sound revenue-generating strategy, and while many charities and nonprofits do in fact generate revenue (Lasby, 2013), they often seek capital that is more flexible and patient than what is available from conventional financial institutions. Impact investing may offer a potential solution for some organizations, but the shift from grants to repayable capital requires a degree of financial and organizational capacity that may take time to develop, particularly for small and mid-sized organizations (Hebb, 2013). Yet the reluctance of public and private funders to cover “administrative costs” or “overhead” makes it difficult for organizations to invest in the training, technology, and expertise that would enable them to build the requisite capacity (Phillips & Johnson, 2019). Additionally, there is a need to clarify regulations around charities and nonprofits undertaking “business” activities (Steering Group, 2018).

Limited Intermediary Capacity

Intermediaries play a variety of roles in connecting demand and supply and ensuring a more streamlined, efficient, and functional market. They can operate on the supply side (e.g. conducting due diligence on potential investees on behalf of investors), on the demand side (e.g. strengthening the business model or impact framework for a social enterprise), or in a hybrid role that bridges both sides (e.g acting as a broker of transactions while also providing post-transaction technical assistance). For the nonprofit sector, there are several challenges to engaging in impact investment related to meeting the expectations of investors, including a need to adjust or completely overhaul internal operational procedures, such as monitoring and evaluating frameworks and risk assessments (Mendell & Barbosa, 2013: 119).

Intermediaries can help nonprofits reduce the costs of securing investments, test new innovations in delivering products or services, and strengthen their capacity to scale up. While more specialized intermediaries are emerging, in addition to a variety of existing “mainstream” providers (Harji & Reynolds, 2014), these activities remain fragmented and at a small scale, particularly as they apply to nonprofits. Moreover, funding for intermediaries is often limited to pilot projects, without significant pools of funding to support them to grow, unlike what the UK had designed through the Big Society Capital intermediary. The need for funding intermediaries is the primary driver behind the new Canadian Social Finance Fund, established in 2019, although the 10-year rollout required to fully fund this initiative leaves it prone to political risk of being diminished or eliminated.

Impact Measurement Challenges

One notable gap in the ecosystem is in the area of impact measurement – to provide reliable, comparable, and useful information on the results achieved through impact investments. Canadian organizations have used global frameworks such as "impact reporting and investment standards" (IRIS) and "social return on investment" (SROI), as well as Canadian-designed approaches such as Demonstrating Value (Hebb & Bhatt, 2014; Best & Harji, 2010). In recent years, there has been some progress in coalescing around common standards (e.g. IRIS indicators, the UN's Sustainable Development Goals, or SDGs) and methods (e.g. theory of change, impact evaluations), and exploring alignment among various approaches (e.g. with the SDGs or the Canadian Index of Wellbeing). Many of these approaches are still being refined and adapted for use across a range of subsectors and contexts, and there is still a lack of standardization and comparability across them. At the same time, there is limited visibility and transparency into what is already occurring and uneven adoption across the nonprofit sector (Phillips & Johnson, 2018), which increases the costs of acquiring and using impact data.

Addressing the challenge of impact measurement will be required to reduce the inefficiencies and costs of measurement so that investors and investees are inspired to use these approaches and data, and feel confident doing so (Harji & Reynolds, 2014). This is not unique to impact investing: the broader nonprofit sector as well as governments face ongoing challenges in monitoring and evaluation efforts (Phillips & Carlan, 2018). However, there are some recent encouraging developments on this front. In 2017, we (Harji & Hebb) were co-chairs of a multi-stakeholder effort seeded by the Government of Ontario to develop an action plan in designing a common approach to impact measurement for the social enterprise sector in Ontario (Impact Measurement Task Force, 2017). This work continues with a multi-stakeholder group, led by Carleton University, seeking a "Common Approach" to impact measurement. There are other sector- and region-specific efforts to coordinate impact-measurement training and capacity development, but these have yet to achieve a significant level of scale and coverage (Impact Measurement Task Force, 2017; Lalande et al., 2016).

Restrictive Public Policies

There is currently no national legislation related to impact investing. Arguably one challenge in producing a national legislative framework is that impact investing lies at the intersection of financial-sector and charitable-sector regulation, which have been constructed and managed very differently from each other. The former has traditionally been risk-averse and has limited the entry of new impact investing products, while the latter has been anchored in dated notions of giving and "trusts." That said, recent developments have provided much-needed clarity and some potential openings. One example on the supply side is clarification of rules around program-related investments (PRIs) that provide guidance for foundations and other investors on deploying capital in a way that takes into account non-financial considerations. However, in other areas such as "commercial" revenue-generating activities of charities and nonprofits, CRA regulation of business activities has not kept pace with the sector's evolution and creates uncertainty.

Other policies that influence impact investing are not typically crafted as "impact investing policies" per se but are usually framed in terms of specific issue areas (e.g. poverty reduction, affordable housing, clean energy). As there is greater awareness among all generations – but particularly among millennials – around climate change and income inequality, this is being reflected in their preferences for responsible and impact investments (RIA, 2019).

Social Impact Bonds

One impact investment tool that has been a particular focus of government is the social impact bond (SIB). Many jurisdictions, notably the UK, the US, Australia, Canada, and a few Canadian provinces, have implemented SIBs. To date, there are more than 100 SIBs on offer around the world, with varying degrees of success (Del Giudice & Migliavacca, 2019; Gustafsson-Wright et al., 2015). It could be said that SIBs have become synonymous with impact investing as a whole, by both those who support the use of market-based instruments and those who oppose their incursion into civil society. While much has been written on the promise of SIBs (Fathing-Nichol & Jagelewski, 2016), they remain a relatively small component of the impact investing ecosystem.

A SIB is not a bond per se, as a return of the investor's principal is not guaranteed in this exchange. More accurately, SIBs are a form of pay-for-performance contracts. Investors provide capital upfront to agencies that are delivering new and innovative interventions. If the intervention achieves its predetermined objectives and milestones set by government commissioners, investors are repaid by government, the cost offset by the savings generated from the successful program. In this way, it is hoped that investors take the risks that arise from innovation, agencies have the required capital to carry out new programs, and government reaps the rewards of longer-term net societal benefits and cost savings – in other words, a virtuous circle for all parties, including those who receive the benefits of new, innovative approaches to service delivery.

Governments of all political stripes have endorsed the SIB structure, but for many civil society actors, this enthusiasm is seen as a desire by governments to offload their responsibilities to private investors (Del Guidice & Migliavacca, 2019). There are a number of other concerns relevant to the nonprofit sector (Jackson, 2013). First, the costs of implementation, in terms of both time and money, have been higher than many initially anticipated – for those commissioning the SIB and for those vying to receive the investment and deliver the programs. Often the cost of monitoring and enforcing contracts to avoid any "gaming" of the contract terms has made these investments unwieldy. Second, the interventions themselves are often not as innovative as originally anticipated. Additionally, there are fears that the beneficiaries of the program may be "cherry picked" in order to achieve the thresholds required for government to pay investors. Many service organizations resist the notion of randomized control trials to prove the effectiveness of their programs because this means a number of potential beneficiaries are intentionally excluded from accessing services that could benefit them. Finally, investors often look for a range of government guarantees in innovative SIBs to reduce the inherent risk, thus undermining the basic premise of (risk-taking) SIBs.

When we separate the hype surrounding SIBs from their reality, however, we see that, like many impact investing instruments, when used correctly for a specific purpose, they deliver the intended results. In the Canadian context, the 2016 Community Hypertension Prevention Initiative SIB (also known as the Heart and Stroke SIB) provides a valuable model for the types of interventions that are most suited for these instruments (Farthing-Nichol & Jagelewski, 2016). This SIB has a precise objective, an innovative program that is reasonably easy to monitor and measure, an easy-to-understand delivery vehicle, knowledgeable intermediaries, and a manageable time frame, and it has attracted a number of investors. Within these parameters, the Heart and Stroke SIB could prove the value of SIBs and allay some of the fears that have surrounded this instrument. However, it is still too early to make a definitive judgement on this example or its broader implications.

What's Next

Unpacking the Tensions

As impact investing gains momentum, nonprofits will be pulled into engaging with this range of capital, actors, and instruments, whether by choice or necessity. It remains an open question whether large parts of the sector are aware of these developments and the potential opportunities and risks they present. In this section, we outline some of the tensions we anticipate as impact investing gains traction. We argue that these tensions already exist but may be amplified in the coming years and that nonprofits should be informed about how to engage constructively with this eclectic new set of actors, structures, and policies.

Scaling with Impact?

One prominent tension for the nonprofit sector is whether the "mainstreaming" that's necessary to enable scale in impact investing – particularly on the part of those that provide or manage capital – will dilute the attention paid to impact, in terms of its relative importance to realizing financial returns. While "impact" is what differentiates impact investing from conventional investing, the drive to scaling – to allow for greater efficiencies in mobilizing and deploying capital, such as through larger funds – will bring investor pressure to "de-risk" these investments and reduce their transaction costs.

In practice, this de-risking can include a range of policy tools such as targeted investor incentives in the form of tax credits or availability of first-loss capital (where early investors agree to bear the first losses in an investment to catalyze the participation of co-investors that otherwise would not come in). These instruments often carry the implicit (or explicit) assumption that impact investing is inherently riskier for investors, even if there is no evidence to suggest that this is the case (Gray et al., 2017). An inordinate focus on investor de-risking strategies has typically not been matched with equal focus on investee de-risking, especially for nonprofits operating in constrained environments that may need this even more.

Another tension posed by the drive to mainstream is the emphasis on the subsectors and investment opportunities that have the highest probability of success – defined in terms of the track record of an asset class or sector, the targeted risk-adjusted returns (and comparability to appropriate benchmarks), and risk-sharing arrangements that minimize downside financial risk. This has also tended to underplay or ignore the importance of "impact risk," which includes a number of potential ways in which impact would fail to be realized (Impact Management Project, 2018b). One implication is that mainstream capital will increasingly be directed to sectors and issues that a) can absorb capital at scale, b) can absorb capital at a reasonable transaction cost, c) can put it to work quickly, and d) have a high probability of achieving targeted financial returns.

In Canada, this skews toward certain subsectors: affordable housing, renewable energy, and sustainable agriculture (Harji & Reynolds, 2014). Investments in these sectors have relatively long track records, based on substantial intermediary presence and policy/regulation, and arguably sizable investment from government and conventional investors. Conversely, the areas where there are gaps in funding – such as poverty reduction, Indigenous business development, and others – may not seem as attractive in the absence of risk-reduction or credit-enhancement strategies. Not coincidentally, these are also subsectors where nonprofits are heavily involved, and which also face the most pressing funding shortfalls.

This raises another concern: if nonprofits are critical for delivering much-needed social and environmental services and maintaining local and deep connections to the communities in which they operate, what is the appropriate mix of funding and investment to enable them to be responsive to their constituency groups – and effective? In what ways can impact investments (compared to grants) allow nonprofits to address community needs, and what is the value proposition that they can offer to investors in return? Does repayable capital create pressure to deliver services to achieve targeted financial returns in ways that would be detrimental to the long-term health of communities? What if nonprofits are not able to repay, and what are the consequences of impact investors pursuing litigation to recover all or part of their investments from nonprofits that were not able to generate targeted financial returns? In addition to practical challenges, critical voices have raised ethical and moral concerns about the legitimacy of impact investing to facilitate the long-term structural social changes required to address the root causes of poverty and inequality (Giridharas, 2018).

We raise these questions because it is critical that the nonprofit sector grapple with them when identifying when and how impact investing would be the right fit for certain organizations. More broadly, we suggest that there are several implications for the sector as a whole. The first is to proactively engage with impact investors to support the deployment of impact capital to particular subsectors, issues, and regions that may have been overlooked based on targeted financial returns or risk perception. The second is to understand impact investors' motivations and conditions and work with different groups to balance their strategies and impact goals, along with their financial return and risk preferences. And third, to infuse a lasting commitment to impact within investing transactions, so that impact considerations (such as measurement approaches, target setting, and accountability mechanisms) are not diluted or ignored and are aligned with the needs of the communities, which nonprofits deeply understand.

Collective Action or Collective Bargaining?

While the deployment of private capital to address public good has had a long history in Canada, the recent momentum around impact investing has been steered by some prominent actors that have shaped its evolution over the last decade. Leadership has emerged from six main groups: private foundations (including McConnell and Inspirit); community foundations (including Hamilton, Edmonton, and Ottawa); financial institutions (including credit unions such as Vancity and Alterna, and commercial banks such as RBC and TD); impact funds (including Renewal, InvestEco, and New Market); governments (both federal, led by Employment and Social Development Canada, and provincial, notably Quebec); and social enterprise intermediaries (such as the Centre for Social Innovation, CCEDNet, and the Pillar Nonprofit Network).

Collective action focused on “ecosystem development” or “sector building” for impact investing has been ongoing over the last decade, and three efforts are worth noting: the 2010 Social Finance Task Force; the formation of the Canadian National Advisory Committee in 2014, which expanded the range of actors from the task force and had a strong focus on reducing the barriers to impact investment within the nonprofit sector; and the Social Innovation and Social Finance Strategy Co-Creation Steering Group that was convened by the federal government and that brought together a wide range of stakeholders for broad public consultations. The latter group’s 2018 report raised six critical issues for the sector and made 12 detailed recommendations aimed at government, investors, and nonprofits (see Appendix 1 for this list of recommendations). The recommendation to create a Social Finance Fund (no. 6) and those related to federal procurement policies (no. 8) have already been acted upon.

Looking ahead, whose perspectives will drive, or dominate, the next phase of industry development in impact investing? Evidence from Canadian contexts, as well as from the US and UK, suggest that foundations, governments, and investors will continue to be most influential, relative to nonprofits and charities. An inordinate focus on supply-side solutions may be appropriate in some regions and subsectors but not necessarily for others. While it is important for nonprofits to be fully represented in these discussions, the direct participation of community groups and networks – either directly or via proxy through the nonprofits that theoretically can represent their interests – is not only desirable but necessary if impact investing is to gain widespread legitimacy as an effective tool to address social and environmental challenges.

This raises a number of additional questions. When defining impact intentions, or indeed the measures by which success is defined, how are community-based actors engaged or empowered? As more Canadians explore opportunities to direct their giving and investment using new platforms, how can they get credible information about changes in communities – positive and negative, anticipated or unanticipated? As governments consider new regulations to flow capital to nonprofits and social enterprises, in what ways are these organizations afforded the same protections and recourse as comparable private sector enterprises (and is this even appropriate)?

Strategies to Advance Impact Investing

While these tensions are real, they are not insurmountable. There are a number of strategies that could advance impact investing in Canada. Some have been implemented in other jurisdictions, while others are uniquely Canadian. Some have been raised before; others are new.

The first step in building a robust impact investing market is to engage the sector broadly and build its capacity across the full ecosystem. All too often the disparate actors in this supply chain operate in isolation rather than as a coordinated whole. On the capital supply side, those who want to make impact investments are often unable to find opportunities that meet the risk/

return profile and the investment structure they require. This group blames the lack of investable deals in Canada as the impediment for more widespread adoption of impact investing. They suggest that a ready supply of capital exists, if the investments were there. On the other hand, intermediaries and investees often spend years trying to raise capital. This mismatch points to investor risk-aversion as the barrier to a larger market for impact investment in Canada.

Additionally, those in the nonprofit and social enterprise sector who need capital find the field itself confusing and difficult to navigate. The time and money spent on working within the CRA and Securities Commissions' rules can be costly. Regulations on acceptable corporate structures within the sector, ability to generate "profit" and retain earnings, share offerings, and the issuing of prospectuses for example, are often unclear and can discourage private investment in the sector. This confusion puts a chill on impact investment activity. Overworked executive directors and risk-averse boards make exploring new opportunities in the impact investment marketplace difficult at best. The cumbersome and often time-consuming nature of developing these new private investment opportunities, the confusing regulatory environment, and the lack of clarity in impact measurement often mean that such innovations are ignored in favour of sticking with past practice, even when this results in diminishing returns. Here, blame for the slow adoption of impact investing lies in the lack of a "mindset shift" within the sector coupled with a restrictive regulatory environment. Progress will require all the actors in the supply chain – investors, intermediaries, and investees – to fully engage with each other. This requires a significant amount of capacity-building at each level of the ecosystem.

It is instructive to look to the UK and how this jurisdiction embedded capacity-building within its social finance framework. Roughly 10 years ago, the same problems that we currently find in Canada were identified in the UK marketplace. In 2012, the UK government launched Big Society Capital with £600 million in investable capital. This fund in turn invests in intermediaries in the ecosystem. By 2017, it had invested approximately £2.3 billion, successfully leveraging private capital. As a result, UK intermediaries were strengthened and private investor risk was reduced. This was not the only strategy implemented to strengthen the UK's social finance market. Capacity to take on impact investment within the charitable and social enterprise sector was strengthened through the Investment and Contract Readiness Fund (2012–2015). Markets for social enterprise were opened through the Public Service (Social Value) Act of 2012. Innovation in SIBs was encouraged through a variety of approaches, including the £80 million Life Chances Fund. Impact measurement systems were further developed using tools such as the unit cost database that provides the underpinnings for the financial proxies used to measure a variety of social interventions. These coordinated actions by multiple actors have led to a robust impact-investing environment in the UK.

Some of these capacity-building initiatives have been replicated by the Canadian federal government and are necessary in Canada if we are to overcome the blockages that have been slowing our growth. They will help all the actors in our ecosystem emerge simultaneously, as no one part of this chain – supply, demand, intermediaries, or financial instruments – can exist without the others. Our large geographic landmass combined with our small population and tendency toward risk-aversion requires government to be a key partner in building this market. This is no different than many other parts of our economy.

To date, the connections between domestic and internationally focused impact investing have been weak, though this represents a potential opportunity for international NGOs. Impact investment focused on international development-assistance objectives, often called development finance or blended finance, has taken a major step forward in Canada over the past year. This includes the recently launched FinDev Canada, a $300-million development finance institution (DFI) based in Montreal designed to leverage private capital for a wide range of impactful investments in developing countries. Several other policies, programs, and funding commitments are being explored by Global Affairs Canada (GAC), linked to Canada's Official Development Assistance (ODA) commitments.

A final step forward for the impact investing market is the adoption of common approaches in impact measurement. Impact measurement is now a key aspect of impact investing, yet the tools and methods used by the sector remain rudimentary. Considerable work is underway in this area, as noted earlier. However, rather than dictating that a single measurement tool or methodology be used across the sector, a common approach is being adopted that builds on a set of best practices in impact measurement, using the SDGs as an overarching framework. The goal is to allow organizations to roll up their current impact-measurement results into a broader common structure.

The SDGs offer great promise to the impact investing ecosystem, as they suggest an avenue by which to scale up the work of the sector within a much broader global agenda without sacrificing their vital connection to their communities. There is early evidence that the SDGs are providing a common language and impact framework for investors to align and report on their activities. If this continues, it will enable the impact investing market to grow while simultaneously encouraging Canada's largest institutional investors to take on impact investing as part of their overall responsible-investment strategies. It is estimated that US$5 to $7 trillion will be required to reach these goals by 2030, and private capital has been viewed as a significant component of this total. As such, achieving the SDGs will require a shift in thinking to a much larger framework within which to situate and catalyze impact investing.

These strategies raise important implications for those in the nonprofit sector seeking to engage in impact investing. The first consideration is the importance of having sector voices heard within industry-building efforts in order to credibly situate the role of nonprofits beyond simply the recipients of impact investments. The second is to develop the capacity and skills within the sector to comfortably engage with the private sector and government in negotiating new structures, policies, and terms for impact investment. The third is to organize collectively – through existing industry associations or new sectoral or regional collectives – and engage proactively with investors to build shared agendas and common principles around how to use impact investing more effectively.

Conclusion

Impact investing has garnered the attention of prominent actors in the Canadian private, public, and social sectors. Social sector funders – including foundations and governments – are testing various approaches to impact investment and will likely continue to experiment as they learn what works. Nonprofits and charities that are seeking new sources of capital to grow their revenue-generating activities may be compelled to seek and take on impact investment capital. Those organizations that are not yet exploring this area may be intrigued, given the growing availability and visibility. As more capital is directed intentionally toward impact, the nonprofit sector will be compelled to engage – if not by choice, then by necessity.

Our chapter began by asking three key questions, and we conclude by returning to these. How has a deliberate approach to impact investing been designed and implemented in Canada? We initially suggested that despite many encouraging developments, relative to the initial promise, the potential for impact investing has yet to be realized. We have seen growth in capital mobilized, the types of actors and organizations engaged, and innovations in structures and products. However, the iterative and experimental approach that has characterized much of the activity over the last five years has not yet yielded transformative changes in practice or public policy, or within any particular issue area. With the recent announcement of the Social Finance Fund, we could be on the brink of the type of transformational approach that could propel activity to new heights.

On the second question, we describe critical challenges in the broader societal context within which impact investing has been situated, as well as the structural challenges in growing this new market. On the former, we recognize that the expectations placed on impact investing – as a variant of "good" capitalism – may not be appropriate nor sufficient to tackle the root issues that may have been the result of, or aggravated by, "modern" capitalism. On the latter, we describe the limitations of the current approaches – an inordinate emphasis on the supply side, an inadequate understanding of demand, and challenges with intermediary capacity, impact measurement, and policy sophistication. We expect progress on several of these areas as the various actors continue to iterate and experiment, especially if this occurs in a more coordinated manner through deliberate policy and market development actions.

What have been the results and lessons, and what challenges still exist? What will it take for the sector to be effective in making use of the new injection of funding and the momentum of a growing social finance market? We identify a series of tensions and questions for the nonprofit sector, some of which may be amplified as impact investing gains momentum. Retaining a focus on "impact" relative to "investing" will undoubtedly be an important role for the sector to accentuate, in a way that balances the needs of investors, intermediaries, frontline organizations, and communities. The participation and leadership of the sector in identifying, mediating, and reconciling these tensions will be essential. This will require sustained, coordinated action within the nonprofit sector, and with the different stakeholder groups around it, including the important role that the government will undoubtedly play in responding to the recommendations of the 2018 Social Innovation and Social Finance Strategy Co-Creation Steering Group report.

Overall, we remain optimistic about impact investing as a positive force to enable social and environmental progress – or more specifically, as a tool to provide new resources, innovation, and collaboration opportunities for nonprofits. Our perspective has been shaped by roles as practitioners, academics, and advisors; from our firsthand experience, we have seen compelling examples where impact investing can have a positive impact. Nonprofits need to be informed, pragmatic, and even cautious in examining these opportunities. They need to understand both the potential upside from new capital, expertise, and structures, and the potential negative implications related to prioritizing financial over impact concerns, inadequate investment readiness, and low community participation and accountability. We believe that many of these issues can be managed if proactively considered and negotiated in good faith, and we remain hopeful about the ability of stakeholders in the Canadian impact investing market to do so.

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Appendix 1

Excerpts from the Steering Group Report

We believe the Government has a critical role to play in supporting these ecosystems by addressing key gaps that arise across six interconnected areas:

1. *Skills and capacity to equip social purpose organizations with the knowledge and resources to adopt social innovation and social finance approaches;*
2. *Funding and capital opportunities so that social purpose organizations have the financial resources to develop, test, adopt, and grow innovative solutions to social and environmental problems;*
3. *Market access for social purpose organizations to be able to find buyers for their goods and services;*
4. *An enabling policy and regulatory environment that creates the conditions for social innovation, social finance and social purpose organizations to flourish;*
5. *Evidence and knowledge sharing to enable social purpose organizations and funders to work together based on what works, develop better goods and services, scale their impact and evaluate progress; and*
6. *Awareness and mobilization efforts to spur interest and build support for the growth of social innovation and social finance approaches.*

RECOMMENDATIONS

1	Anchor commitment and long-term policy action toward social innovation and social finance in Canada through legislation
2	Establish and fund a permanent multi-sectoral Social Innovation Council to advise the federal government
3	Create a permanent Office for Social Innovation
4	Improve social purpose organizations' access to federal innovation, business development and skills training programs
5	Establish a multi-departmental Social Innovation Ecosystem Program
6	Create a Social Finance Fund
7	Ensure federal funding practices support and enable social innovation
8	Incorporate social procurement guidelines, tools and training opportunities into the Government's focus on a cohesive sustainable procurement plan
9	Address the legal and regulatory issues impeding charities and non-profits from engaging in social innovation, social finance, and social enterprise
10	Initiate a series of controlled regulatory experiments, or "sandboxes," to explore and experiment with new regulatory models
11	Establish a Social Innovation Evidence Development and Knowledge Sharing Initiative
12	Coordinate a national social innovation and social finance awareness campaign

Notes

[1] B Corps (a type of certification) are often confused with benefit corporations, which (as a legal form) exist only in the US (to date) and provide a new legal definition of social-purpose-oriented companies.

Biography

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Karim Harji is an associate fellow and programme director, Impact Measurement, at the Said Business School, University of Oxford. He was previously co-founder and director at Purpose Capital (now Rally Assets) and senior fellow at the J.W. McConnell Family Foundation. His research focuses on impact investing, impact measurement, and social accounting.

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