Inching to Impact:
The Demand Side of Social Impact Investing

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Running head: The Demand Side of Social Impact Investing

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Abstract: Social impact investing (SII) is transforming the availability of private capital for nonprofits and social enterprises, but demand is not yet meeting supply. This paper analyzes the perceived barriers faced by nonprofits in engaging with SII, arguing the need to assess differences using a policy field framework. Four parameters of a subsector are conceptualized as shaping participation in SII: the scale of investment required, embeddedness in place, the need for radical innovation and the configuration of intermediaries (such as loan funds and market brokers). Based on 25 interviews with leaders of nonprofits and intermediaries in affordable housing and community economic development in Canada, this study finds that significant barriers are a lack of knowledge of the market, inadequate financial literacy and the challenges of measuring and valuing social impacts. The surprising findings are the limited use of impact metrics and evaluation, and the emphasis on financial over social returns by the intermediaries and investors, particularly in affordable housing.

The "explosion" of new financing tools created by social impact investing (SII) has been described as no less than the "Big Bang" for the third sector (Salamon, 2014, p. 4). The anticipated bang is threefold: the potential mobilization of massive amounts of new private capital for nonprofits and social enterprises; the creation of new tools and asset classes for investors; and the adoption of a new paradigm that fuses impact with investment. The distinction of SII from other tools of social finance is the expectation that, in addition to a social return, the capital is repayable and a financial return to the investor is possible (Daggers and Nicholls, 2017, p. 69). When facing a tradeoff between social and financial returns, SII supposedly puts social impact first (Gläzel and Scheuerle, 2016; Höchstädter and Sheck, 2015; Roundy et al., 2017). Predictions of the growth of SII have been bullish, with a prominent estimate suggesting a supply of new capital of $ US 400 billion to $1 trillion by 2020 (O'Donohoe et al., 2010), which in economic terms surpasses the contributions of philanthropy. In social terms, the ability to fulfill the UN Sustainable Development Goals (SDGs) by 2030 is argued to be partly dependent on the strength of the impact investing industry (GIIN, 2016; Pineiro et al., 2018; Vecci et al., 2016). While SII has shown strong growth internationally (Mudaliar et al., 2018), it has fallen short of expectations (Heap and Davison, 2015).

The initial remedies for this shortfall looked to the supply side, studying the challenges for investors (Mendell and Barbosa, 2013; Ormiston et al., 2015; Saltuk et al., 2011), de-risking investments and examining the actual rates of return (Gregory, 2016; Social Investment Research Council, 2015), and seeking means for stimulating the growth of capital (Nicholls and Schwartz, 2014). What has become apparent, however, is that the supply of investment capital outstrips demand, and the impediments to realizing the potential of SII lie primarily in a lack of readiness and "absorptive capacity'" of nonprofits, charities and social enterprises, which are the majority of the investees (Alternative Commission, 2015; Bolis et al., 2017; Brown & Norman, 2011; Newmark and Pena, 2012). Because the practice community has dominated the study of SII, often with investors as the target audience (Daggers and Nicholls, 2016), our understanding of the challenges faced by the nonprofit sector to engage with SII is limited and speculative (Bolis et al., 2017).

This paper assesses the perceived barriers faced by nonprofits in engaging with SII, recognizing that there is no single sector-wide view on impact investing (Alternative Commission, 2015). Our contribution is to advance analysis of the opportunities and impediments of SII from a demand side perspective, assessing differences by "policy field" or subsector. We first outline the ecology of the SII landscape and develop a conceptual model of the components of policy fields that influence the ability of nonprofits to participate in SII. We then compare the experiences of nonprofits and SII intermediary organizations in two quite different subsectors – affordable housing and community economic development (CED), with a focus on Canada. These subsectors are selected on the basis of their high level of activity in the SII market, according to core impact investment areas identified by the OECD (2015). The capital needs, risks, ability to scale, investment parameters and other factors are quite different in each, however. The SII market is less developed in Canada than the UK or US, but is advancing quickly with strong support from governments and from community and private foundations, and thus as a study of SII subsectors is arguably similar to many other countries.

Based on 25 interviews with senior staff of leading nonprofits and intermediary organizations in the housing and CED subsectors, the research asks: What are the perceived barriers to effectively participating in social impact investing? This question is relevant to only the fraction of organizations who might contemplate seeking or facilitating such investments, and thus we deliberately biased our sample toward those with a self-expressed or anticipated interest (as viewed by others) in the market. Our findings demonstrate the need to understand the differential opportunities and constraints at a subsector level, and they reinforce the value of both government and philanthropy as essential partners in making SII sufficiently robust.

The Ecology of SII: A Subsector Approach

The implementation of SII entails a rather complex ecology (Evenett and Richter, 2011; Social Investment Task Force, 2014). The supply side – those investing capital – include: corporations; banks and other financial institutions; public institutions such as pension funds; high net worth individuals and 'angel' investors; community and other development funds; foundations; and a nascent mass retail market (for example, through crowdsourcing) (Block et al., 2018; Logue et al., 2017). On the demand side are organizations seeking such investments, including charities, nonprofits, social enterprises and social purpose businesses that have projects in need of capital and can make a convincing case about their impact and potential for financial returns. With their focus on impacts rather than organizations, SII investors tend to be agnostic as to the legal form of investees: it makes little difference to them (limited only by regulatory requirements) if the receiving organization is legally a charity or nonprofit, a social enterprise in a hybrid corporate form (Haigh et al., 2015) or a for-profit, as long as it can deliver results. Thus, any automatic advantage of legitimacy in an impact market that charities have historically claimed for societal benefit is diminished.

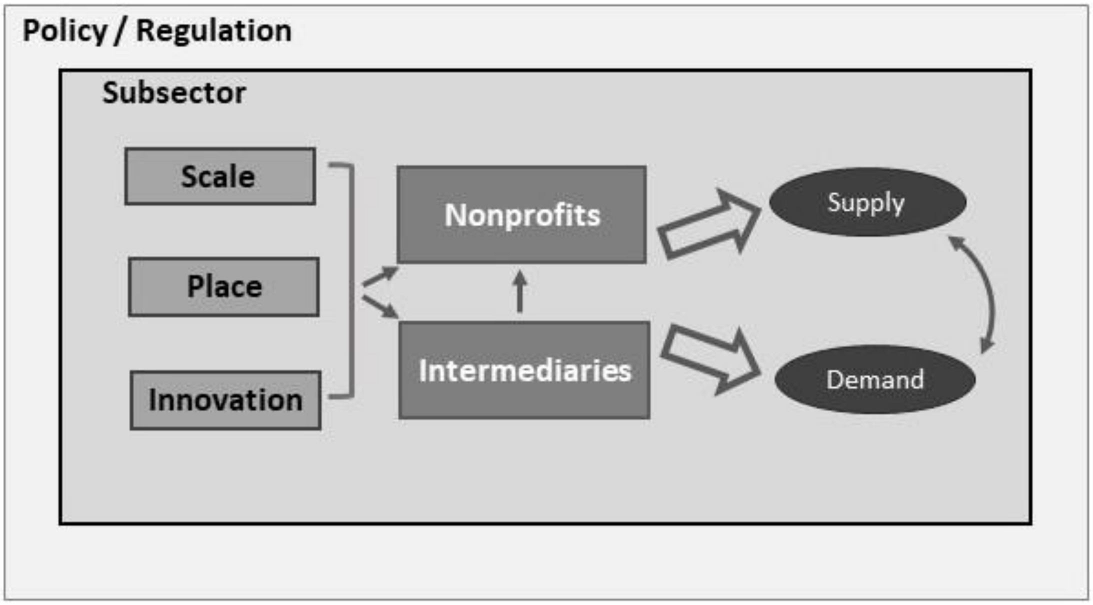
To be serious players, investees require adequate organizational capacity (Monitor Institute, 2009) to manage innovative, scalable projects, potentially complex financing and the associated financial risks. Because the investors are not making philanthropic gifts but anticipating a financial as well as a social return, these organizations need strategies that can generate earned income at a level beyond the basic costs. A suite of investment tools are available, depending on the risk tolerance of the parties (and some regulatory constraints), including angel funds, loans, bonds, pay-for-performance contracting (also known as social impact bonds) and equities (albeit to a limited degree because nonprofits and charities cannot issue shares).

The connections between investors and investees are made through a variety of intermediaries that: pool capital from different sources (e.g. charity and microfinance banks, community development funds); build capacity and readiness for investing (e.g. community foundations); provide information, clarify language and develop awareness of the market (e.g. impact investment fund managers); align capital with projects (e.g. crowdfunding platforms); and provide valuations of impact as a basis for exchange (e.g. social exchanges, the Global Impact Investing Network (GIIN) with its catalog of performance metrics known as IRIS).

Several barriers to facilitating take-up of investment have been identified, including a mismatch between the expectations of supply and demand, the absence of suitable intermediaries (Harji and Hebb, 2010) and lack of capacity of investees (Mendell and Barbosa, 2013; Nicholls and Schwartz, 2014). In a study of SII in Germany, Glänzel and Scheuerle (2015, p. 1663) point to the divergent perceptions of financial risk and social impact between investors and investees due to differing institutional logics of their sectors (see also Cetindamar and Ozkazanc-Pan, 2017). Whereas investor and SI intermediaries adhere to the logic of commercial finance markets, which maintains an aversion to financial risk, nonprofits and social enterprises are embedded in a social sector logic, which focuses on the need to continually adjust organizational practices to achieve a social mission, making them resistant to standardization or quantification of measurement. Beyond these broad determinants of their sector of origin, behavior and outcomes are also shaped by the policy field in which *both* investors and investees operate (Bell and Haugh, 2017; Moulton and Sandfort, 2016; Grønberg and Smith, 2014; Stone and Sandfort, 2009). The practice literature is increasingly calling for a more nuanced assessment of how SII varies by subsector, as illustrated by a 2017 Oxfam report that advocates for more independent research in order to “understand the enterprise-level experience and analyze which structures, approaches, and incentives best assist enterprises to maintain an intentionality to optimize impact” (Bolis et al., 2017, p. 6).

Although many aspects of a subsector will influence both supply and demand for SII, four variables are particularly important, as illustrated in Figure 1. The first is the scale of investment required as it affects not only the likely availability of adequate capital but the capacity required by investees to attract and manage funding. Projects and services that require large investments to achieve impacts and financial returns will necessitate organizations with financial sophistication and systems to manage large amounts and multiple streams of capital as well as substantive program expertise to deliver results. As scale increases, the number of organizations capable of operating at this level likely decreases.

Figure 1: A Policy Field Framework of SII



A second factor is the extent to which the activity is inherently place-based or relatively independent of a specific locale. While all projects and services arguably are attached to a geography to some degree, the importance of local knowledge, culture and relationships with other actors have greater claim in some fields of SII than in others. What might work in one locale will not succeed in others. For instance, place is more significant in CED and agriculture than in health care or clean energy. Services that are highly place-dependent are more difficult to scale by simply expanding into other places, and thus the number and organizational size of providers in a given locale may be capped.

Third, the extent to which the subsector is open to and demanding of radical innovation affects both SII supply and demand. In some fields, the route to impact requires organizations to be “trailblazing entrepreneurs,” although this may mean advancing a good or service before its viability and profitability is evident (Bannick and Goldman, 2012, p. 9). In a more developed market, organizations may be able to scale existing innovations by diffusing models that have been de-risked, as did many other micro-finance institutions after the pioneer, the Grameen Bank, took fifteen years to establish a market (Bannick and Goldman, 2012). Because the risk of failure is greater and likelihood of returns uncertain, the early stage innovators often require philanthropic support or public subsidies at an early, “blueprint” stage to test a sustainable business model (Evenett and Ricther, 2011; Monitor Institute, 2009), and innovation capital needs to be more patient than its replication counterpart.

The fourth factor is the nature of the intermediaries, whether suitable to connecting supply and demand, thus enabling deal flow. A field in which the scale of the projects is large will require intermediaries capable of amassing larger pools of capital and serving as knowledge brokers; where place-based, the intermediaries also require local knowledge, are more likely to be working with smaller investors, and may themselves be specialized and place-specific. In subsectors in which trailblazing innovation is occurring, the intermediaries need to understand, inform investees about and manage the higher risks involved.

Our contribution to a deeper understanding of the demand side of SII is to apply these four components of subsectors as a framework to examine differences in perceived barriers to participation in SII in housing and CED.

Methodology

To understand the challenges of SII from a demand side we sampled nonprofits experienced in or ready to participate in social investments and the main intermediary organizations. A total of 25 semi-structured interviews with senior staff of these nonprofits and intermediary organizations were conducted in 2017, with 13 key informants from the housing and 12 from the CED subsector. The nonprofits were identified, from the practice literature or by nomination from SII participants and other subsector leaders, as active in or likely to seek impact investments. Similarly, the intermediaries, which represent a mix of community funds, information brokers and market enablers, were identified by reputation among impact investors as having a supporting role in the two subsectors. Although the selected intermediaries have a strong presence in one of the subsectors, most also support investing in other areas, and thus were able to provide expertise on SII more generally.

Recognizing there may be differences by place, we chose organizations in three major cities in housing (where investment locales are primarily urban) and four provinces in CED (where SII may be urban or rural). Although a relatively small number of key informants, the total population of investment fund providers and other intermediaries is not large in Canada, and this study covers many of the important players. We added interviews until the responses became redundant, indicating that we had captured the main issues of concern. The kinds of organizations included, by subsector, are shown in Table 1, and the interview protocol is described in Table 2.

Table 1 – Overview of Types of Organizations Interviewed

Affordable Housing		Community Economic Development	
Locales	**Types of Organizations**	**Locales**	**Types of Organizations**
Edmonton Ottawa Toronto	• Philanthropic social enterprise loan fund • Securities nonprofit loan fund • Nonprofit housing development corporations and associated foundations • Charitable organizations specializing in housing services • Charitable organizations offering affordable real estate to other smaller charities	Alberta Manitoba New Brunswick Nova Scotia Ontario	• Policy network & member service for CED organizations • Local work integration social enterprises • Investment co-operatives • Community loan funds • Community economic development organizations mandated to support local social enterprises

Table 2 – Interview Themes

The interview protocol covered these key topics:
- General description: how the organizations identified themselves in the subsector - How they understand and define impact investing - The challenges they have experienced or witnessed - Perceptions of the marketplace, including whether the supports are adequate, and the nature of the intermediaries - How they measure and evaluate impact, and how social and financial returns are determined and communicated - Recommendations for expanding the market, including policy and regulatory reform

The responses were coded by keywords, with particular attention to identification of barriers to participation in SII. Descriptions of barriers were analyzed qualitatively, with categorization and interpretation by two independent judges to determine major themes.

The Landscape: Comparing Subsector Ecologies

The premise of our analysis is that the opportunities for and hindrances to participation by nonprofits in SII are influenced by four key parameters of the subsector in which they operate – scale, place, innovation and supply of intermediaries. In this section, we briefly outline the key differences in these four factors between the two subsectors, drawing on existing research. The goal is to provide background context so as to facilitate a better understanding of the barriers that limit engagement in SII, rather than to map the specific configurations of the housing and CED subsectors.

Affordable housing: A matter of scale

Internationally, the housing subsector is regarded as a prime area for social investment. There has been chronic under investment for years and demand for affordable housing is very strong: indeed, major cities have declared crises of affordability,[1] Although in impact investing circles "housing" is often referred to as if it were single sector, it is in fact highly segmented. Emergency shelters for the homeless are supported mainly by philanthropy and delivered by charities; "social housing" is targeted to low income households with rent-geared-to-income and usually needs to be deeply subsidized; market-priced homeownership is dominated by the private sector (CMHC, 2017). SII is directed primarily toward the broad segment of "affordable" housing[2] that lies between highly subsidized social housing and the full-price market, thus involving the provision of housing at below market rates, for both rental and ownership, by a mix of for-profit and nonprofit entities.[3]

A defining characteristic of SII in housing is that it requires big money, larger than is typical of most impact investments (New Market Funds Society, 2014). This investment capital needs to be patient because, particularly in the construction of rental units, equity is tied up for long periods without an equivalent of pre-sales (Petterson et al., 2017), and is not readily liquidated. As a commodity, housing is fairly standardized and the need for innovation of the product is quite low – largely a matter of replicating existing models. The need for innovative financing models is more challenging, however. Investors must be prepared to accept uncertain financial risk, even though loans can be secured against bricks and mortar, as there are no assurances of financial viability given that rents or sales will be below market value (Evenett and Richter, 2011; Harji et al., 2014; Impact Investing Australia, 2016; Petterson et al., 2017).

Just as the supply side requires scale so, too, do the nonprofit recipients in order to manage assets often in millions of dollars. The high capacity threshold greatly reduces the number of nonprofits suitable for and interested in social investment or in affordable housing more generally. In addition, most nonprofits of any scale in housing, particularly in social housing, are more than landlords. They also deliver or host an array of programs under contract with various government departments, further amplifying the need for financial sophistication. As landlords, they must maintain their properties for these multiple uses, which, as the representative of a housing nonprofit noted, becomes more challenging as infrastructure ages:

> We have the infrastructure and the facility, and we're contracted for services. So, there's operational dollars to deliver the programming, and then we have the responsibility on the capital and building side to make sure it's a safe space. And as your infrastructure ages, opportunities to secure funding for preventative maintenance or to retrofit your building because it's tired and has intensity of use, is a huge concern for organizations like us.

A wide range of social finance investment funds (SIFs) are relied upon to pool capital from foundations, family offices, institutional investors, financial institutions and a variety of other investors (New Market Funds Society, 2014). Some SIFs arose and still operate as independent investment entities. Most SIFs of any size, however, are the product of partnerships started with the intent of meeting a community need that was not being served by the conventional market. They tend to be place-focused (whether municipal, regional or provincial), and all required some degree of initial subsidization, whether public, philanthropic or provided by the host financial institution (New Market Funds Society, 2014). For example, in Alberta the Social Enterprise Fund was established in 2008 as a partnership of the Edmonton Community Foundation and the City, both of which recognized the value of supporting social enterprises as a means of community development. Operating in Vancouver, Resilient Capital, is illustrative of the important role that financial cooperatives play in SII in Canada, and is a partnership of the Vancouver Foundation and Vancity Credit Union, although it also holds insured term deposits from other investors and individuals. A relatively new and rising player, New Market Fund Inc., is majority owned by a charity formed by six private foundations; it manages multiple funds and has created its own real estate development nonprofit to create affordable housing, working mainly in Vancouver and Toronto, while partnering with nonprofits and governments on projects across the country.

Although the number of SIFs has increased in recent years, the big investment capital in Canada still rests with large pension and other institutional funds which, given their size, should be well suited to investment in the housing subsector (Hebb et al., 2010). But, their presence is still minimal. As more community and private foundations commit to using ten percent or more of their endowments as impact investments, and as more institutional investors enter the market, the size of loans can be expected to increase. Particularly in housing, however, governments will still be needed to leverage "catalytic capital," de-risk investments and subsidize a market in which it is difficult to produce financial returns (Alternative Commission 2014; New Market Funds Society, 2014).

Community economic development: Place-based investment

As a broad, umbrella concept and heterogeneous practice, CED embraces three key components. First, it is rooted in place – indeed, sometimes described as a "quintessentially local project" (Cummings, 2007) in which community building is an end in itself. Second, it aims to create jobs and economic opportunities that improve social conditions, often targeted to the most disadvantaged. Third, it embraces a philosophy of participation and sustainability to promote social and economic inclusion (Shaffer, 1995). CED has a long history, particularly in countries where resource-based communities and inner cities have faced decline and reinvention. The modern movement is usually dated from the 1960s when activists in low income communities sought to be engaged in decisions about urban and community renewal (Clay and Jones, 2009; Phillips and Besser, 2013).

Investment in CED necessitates long term capital and coordinated action because the change that occurs through a CED model is often incremental and cumulative, requiring a wide range of projects by many different organizations, collectively reaching an inflection point that then generates larger scale development and change (Pawson, 2015). Although CED may include system-changing initiatives involving multiple players, the emphasis on local involvement favors smaller scale. Given the interest in creating new business opportunities, there is an enthusiasm for social enterprise and social purpose businesses as the agents, particularly if they can bring new investment.

To an even greater extent than the housing subsector, CED is embedded in and differentiated by place, and dependent upon local knowledge and social/political capital. While the intermediary funds operating in CED are diverse, many are place-specific and in general smaller than in housing. Given the context dependency, the potential for a CED service provider in one locale to scale by expanding into new locales is limited; the more likely scenario is to diversify its services and business models. The landscape thus tends to be characterized by two quite different types of organizations: recently established ones designed to undertake new activities and attract new investments, and existing service providers that are expanding their work into economic development activities. As our interviews confirmed, for those that have adopted a CED perspective from a history as, say, an anti-poverty organization that had been reliant on government grants and philanthropy, the ability to adopt a viable new business model that produces a measurable return on investment is often a difficult transition. Limited experience with social finance makes it difficult to attract the first traunch of capital on which to build so that longer term potential for financial returns is limited. A variety of new, regionally based SIFs have sprung up in recent years to assist in this process, and high on the priority recommendations of both the CED community (CCEDNet, 2018) and impact investor practitioners is further capacity building: "To reinforce and accelerate the opportunity provided by these new, regionally accessible social finance funds, it is essential to support intermediaries that can bring sophisticated assistance to communities in the inception, planning and delivery of social infrastructure" (NIIP, 2016).

As a subsector embracing many different kinds of activities, the scope for innovation is significant, although there exist a variety of tested models to be replicated. In the Canadian context, the long history of cooperatives, formal economic development policies by provincial and federal governments and a well established national CED association have given rise to a variety of innovative approaches, new financing tools, supporting policies and intermediaries. One tool that has proven effective in attracting capital because it appeals to the place-based nature of CED is the Community Economic Development Investment Fund (CEDIF), an equity-tax credit system supporting local investments begun in Nova Scotia in 1999 and emulated in several other provinces (Hebb, 2013; Lionals, 2015; New Market Funds Society, 2014). The impetus was to encourage money invested in people's Registered Retirement Savings Accounts to stay in the province for local development, whereas 98 percent was leaving, and to reduce the high transaction costs on small and medium sized enterprises in raising capital (Pawson, 2015).

Considering the differing characteristics of these subsectors, it is not surprising that there are differences in the experiences of nonprofits with SII in housing and CED, which we examine in the next section.

Will They Come? Demand Side Barriers to SII

The presumption about SII has been a variant of "build it and they will come:" if a good supply of private capital is created, charities, nonprofits and social enterprises will be lined up to put it to good use. This faith in a capacity-ready set of organizations demanding of and able to use SII is overly optimistic, however. Many nonprofits do not engage with SII simply because they do not require repayable finance in their work (Big Society Capital and ACEVO, 2015; Bowman, 2015; Lyon and Baldock, 2014). For those that could use it, the literature, albeit limited, indicates that greater organizational size and a tradition of social enterprise are facilitating factors in entering the SII market (Big Society Capital & ACEVO, 2015).

Our expectation is that due to the required scale of projects and the ability to replicate a proven model across locales, the demand side for SII will be more developed in housing than in CED. Nonprofit housing providers likely have the capacity to make use of repayable finance and, in an established market, the intermediaries should be well developed to pool large amounts of capital. As our analysis shows, however, the scale requirement can also inhibit the development of infrastructure, and other barriers remain significant in both subsectors.

The use of SII

By the nature of our sample, all of the organizational representatives we interviewed were familiar with the concept of impact investing and indicated an interest or engagement with loan financing and other forms of SII. With respect to the types of SII instruments nonprofits seek and use, there are similarities across the two subsectors, but the rationales are different, partly reflecting differences in requisite scale. In housing, the main reason is to leverage multiple revenue streams – attracting private as well as philanthropic and government dollars -- "to the highest potential," as the director of a housing nonprofit told us. Loan financing reflects a shift in thinking of housing from being government-supported "social programming" to a new business model that might prove more successful in attracting private funding. These blended (public and private) financing models work well because hard assets are involved: philanthropic grants, or municipalities provide land or a first-provision-loan-loss to incentivize private investment. In addition, large SIFs can use the market (or above) return generated from the higher end of affordable rental properties to encourage investment in housing for people with deeper economic need where there is lower profitability and higher risk.

In CED, blended finance is seen as a means to mitigate the sizable risks involved for the lender in dealing with entrenched societal problems. As a leader of an investment co-op noted: "the risks are huge if it doesn't go well, and that's why the lender will often say to the board – maybe you guys should find half of it, and we will provide the other half." As in housing, there is a need for patient capital, and for a first-loan-loss provision backed by government or philanthropic dollars. Non-traditional financial intermediaries, such as foundations, are viewed as being more likely to provide patient capital, while traditional financial institutions are "fairly quick" in their expectations of repayment.

Barriers to participation in SII

Capacity requirements

As expected, participation in SII is influenced by organizational capacity, and the housing providers are larger than those in CED. The requirement of large scale of investment can have a deflating effect, however, because it limits the infrastructure available to support SII. While existing intermediaries in housing have opened new opportunities for noprofits to access loans and other financing not available through commercial markets, both housing providers and SIFs indicated that the average size of their investments is not yet large enough to make them serious players. While about a third of housing nonprofits and intermediaries indicated that interest in affordable housing is dampened because there is no money to be made, an equal number said was that the problem is “there’s nothing to invest in” – suitable projects are not coming forward. Indeed, one of the respondents suggested that Canada has no major intermediaries serving housing, although some SIFs are beginning to become more significant players.

While investment scale and organizational size are major factors in the ability to participate in SII, the barriers are more nuanced than scale and size alone. Across both subsectors, albeit with differences between them, a lack of knowledge about social investment, inadequate financial literacy, and challenges related to assessment of impacts are also impediments.

Lack of knowledge about the SII marketplace

Evidence from the UK experience indicates that insufficient knowledge about the marketplace and its components inhibits participation (Big Society Capital & ACEVO, 2015; Evenett and Richter, 2011), and this holds in the Canadian context. The very term, “impact investing,” can be problematic as it is used to signal different things by different investors. As the director of a loan fund observed:

> I think a lot of folks in impact investment talk a language that nonprofits don’t understand. There’s certainly a gap in the financial and business knowledge between the two groups. There’s a real need for education because most people don’t know what ‘impact investing’ is; everybody has a different definition of what that is, and there is no one model that people can relate to.

Once committed to the idea of SII, the number and complexity of financial instruments, as well as boutique arrangements that involve the blending of tools, obscure market signals and make entry and navigation around investment opportunities difficult (Salamon, 2014; Evenett and Richter, 2011). Two-thirds (N = 16) of the respondents, including several lenders, conveyed a sense of confusion about where to go for information on how loan financing works and how to participate in it.

Investees recognize the potential value of intermediaries in providing market information as well as strategic and practical assistance in the development of investment deals, but in practice they have a limited understanding of them. The marketplace is saturated with traditional financial intermediaries and other SII intermediaries are often niche-specific so they lack wider visibility and thus appear to be under used. The challenge is more than simply knowing the existing intermediaries, however. There is a lack of clarity around who assumes this role: that is, who could be called an intermediary at all. Investees tended to see intermediaries as actors that operate in a supportive role, as opposed to loan funds that work with organizations to become investment-ready. Indeed, this supportive role, particularly in helping beginners become investment-ready, appears to be largely absent in Canada. The lack of visible, accessible intermediaries has implications beyond limiting market access as it also affects costs and feasibility. As indicated by the executive director (ED) of an investment co-operative that makes resources available to nonprofits, "the infrastructure is all in place for the private sector, but for us, we're looking at much less," and this lack of infrastructure creates disproportionate costs for nonprofits and affects the financial viability of market activity.

Finally, a more fundamental knowledge gap was identified. As one ED put it: "charities don't understand what lenders want. There is a huge problem, and charities need a lot more coaching, and more than that, they need to be convinced that borrowing would make a lot of sense to achieve their goals." Understanding of the concessionary relationship between social and financial return differed considerably between intermediaries and investees across the subsectors. A leader of an intermediary operating a housing loan fund noted that it is an uphill struggle to develop shared mutual expectations:

> The majority of investors, including foundations, start from the premise that there's going to be higher risk and not much payoff. Whereas when charitable organizations hear impact investment, they think it'll be really cheap money! The perception that there will be low return is held on both sides of the capital chain.

Still others, particularly in the CED space, indicated that the expectation of market or above rates runs counter to the principle of SII and is no different than conventional lending, except it entails an added burden of pursuing a social mission and delivering on those results. Where there is the most disagreement, however, is in the understanding of what constitutes "social impact," or the degree to which it is required for SII.

Financial literacy

SII can be a complicated business, and research from other countries has identified a lack of financial literacy as a barrier to participation (Brown and Swersky, 2012; Salamon, 2014). The need for greater financial sophistication is evident in the Canadian case. For nonprofits, the concerns were mainly about the ability to undertake feasibility studies, write business plans, and understand the finance culture around asking for loans. For the operators of loan funds, the need for charities and nonprofits to affect a cultural shift -- from asking for grants to securing loans -- was the dominant theme. Too many charities think that since they have a solid social mission, a lender will readily understand the need for capital and provide what is requested. A cultural shift, -- from convincing of a need to a demonstration of financial strength -- is imperative and often quite foreign to how charities are accustomed to operating, at least that is the perception of most lenders.

The importance of financial literacy extends beyond expertise of staff to board governance. Indeed, our respondents, particularly those representing loan funds and other intermediaries, flagged board governance as presenting unique challenges. Board members often do not feel qualified to be involved in the development of SII tools and relationships, and this can lead to the avoidance of engaging in conversations around the prospect of SII projects and a reluctance to develop or adopt a sound investment policy (ACEVO, 2014). According to the director of a loan fund supporting CED, "the board isn't clear of what their responsibility is when the social enterprise takes on debt. There's a lot of ambivalence about 'social enterprise' and what charities and nonprofits are allowed to do because [the regulator's] definition and rules on business activities are loose and not always clear." Multiple respondents pointed to the fact that most board members, particularly in CED, tend to have social work backgrounds (as opposed to business expertise), and are either not financially literate or are uncomfortable with taking on debt. As a result, boards are often reluctant to follow through with a deal that an organization's staff had initiated, culminating in a "waste of time" and resources, for both sides.

Improvements in financial literacy would address what Brown and Swersky (2012, p. 17) refer to as the "distortive effects of grants and soft finance" – that free money typically is not free. Grants also come at a cost which, as Salamon (2014) points out, can prove in the range of 15–25 percent of the capital raised, more than three times the typical cost of raising equity. The concerns over adequate financial expertise are closely tied with a perception that there is heightened risk in SII compared to more conventional financial markets, which is in part due to the nascent stage of the market.

Social impact and evaluation

Measuring and communicating the social impact of a project are essential for qualification for SII and fundamental to an organization's claim of a lower than market rate of return (Reeder et al., 2015). In recent years, the impact investing industry has developed a plethora of impact metrics for use in global SII markets (So and Staskevicius, 2015), most notably by IRIS, the GIIN's evaluation wing. According to GIIN's 2016 survey (Mudaliar, et al., 2016), 65 percent of impact investors internationally have claimed to use the IRIS metrics, though more indicate they employ a combination of IRIS-aligned and proprietary methods. The IRIS metrics do not appear to be well known by Canadian nonprofits, and none in our study had used these or other standardized impact valuation measures. Rather, the reality is that social impact is determined through negotiation, and metrics are typically employed on a case-by-case basis, subject to differing levels of quantitative and stakeholder scrutiny.

Even basic nomenclature can prove problematic (Vo et al., 2016). There was no consensus among respondents as to what "social impact" or "social return" means. In both subsectors, social returns were often referenced as being outputs rather than impacts. In housing, the social impact was often seen as obvious – the construction of houses – and in CED was commonly referred to as the number of people finding employment. A few respondents noted that in order for loan financing to produce a financial return in housing, the overall social impact was often consequently weaker because the lower the incomes of tenants, the less profitable the venture.

Almost 60 percent of the respondents, from both subsectors, identified evaluation as a barrier. The time and resources required to undertake an evaluation project is seen as prohibitive, and many expressed concerns about the validity of current measurement approaches, including the popular social return on investment (SROI). For nonprofits and social enterprises competing with for-profits, the expectation to measure social impact amounts to overwhelming pressure, as observed by the leader of a community loan fund:

> Where you can quantify outcomes great, but don't stress about it because again you're a social enterprise, you're up against a competitive marketplace regardless of the industry and sector you're in, and there's this expectation you need to quantify the work you're doing. For-profits don't have to worry about that.

Some participants highlighted the importance of storytelling in communicating impact to investors, but a majority felt that measurement beyond this is often unrealistic, and in some cases not even desirable. The operator of a number of work integration social enterprise illustrated this sentiment particularly well:

> We run four businesses, they all brought in over $670,000 in earned revenues last year, but we usually have only one person (plus some volunteers) working on these, and they're not business people; they don't have time to sit back and evaluate. One of the things we've been saying with investors is you need to give us additional cash for evaluation, and if you wont, it won't happen. Because I'm not going to try to run a business, and then try to run a research project concurrently. Evaluation is really a challenge.

Consequently, almost none of the respondents had what they considered to be evaluation metrics for their social impact returns. Where consistent evaluation measurement and metrics are possible, it is seen as costly and resource intensive, so that the community lender may need to assume the bulk of the work on measurement. One CED lender told us:

> For our evaluations, 90% of it would happen up front, and it's probably pretty typical investment evaluation. We're looking at who the team is, what their track record is, who their competitors are, what their anticipated sales revenues over the next five years. We ask them to submit this before making our decision, and then through the five years of their loan, they have to submit annual financial statements and pay interest. We have talked about wanting to collect data on the type of people they're employing and what they're paying – so what they're adding to the community by being here outside of jobs and wages – but we haven't gotten to that.

Overall, the supposed emphasis on social impact over financial returns, which is argued to distinguish SII from other forms of impact investing, may be misplaced. A clear message was that nonprofit leaders are confused about what investors want beyond getting their money back. Our findings indicate that the reality in affordable housing is that investors are more often than not looking for market rates of return on their investments, and they value financial over social returns. While there could be high returns in CED, the diversity of this sector was reflected in the different kinds of deals that take place. At best, the approach to a social return was minimalist. As a representative of an investment co-operative stated, "our big measure is whether or not we get paid back and whether the loan got them where they wanted to be. Did they achieve the goals they set out to achieve with the loan?"

In sum, the social impact side of SII is under developed, inconsistent and often overlooked. And, the future of impact assessment promises to become more complicated. In one sense, the building of housing, inevitably fully occupied, is a ready outcome. But, the impacts of affordable housing are much broader than mere accommodation, for instance when it reduces the current and intergenerational patterns of poverty. Measurement of impacts in increasingly integrated systems, for example when physical accommodation is supplemented by variety of other social programs provided by collaboration among nonprofits and supported by a diversity of grants, contracts and social impact bonds, is inherently more complex. Although integration and collaboration may enhance the quality of services in a more client-centred manner, the ability to disaggregate and attribute impact to particular investments will be mind-numbingly complex. The uncontested belief – and defining feature of SII – that impacts can be neatly attributed, measured, compared and valued will increasingly come under pressure given more integrated and complicated services. While one approach is to develop better metrics, the other is question the meaning and use of impact.

Regulatory and policy barriers

The presence of regulatory barriers and absence of public policies that mobilize social investment are often cited as major impediments to the development of mature SII markets (Bannick et al., 2017; Clark et al., 2018; Mendell and Barbosa, 2013; Martin, 2016; McGrath, 2017; Thornley et al., 2011; Wood, 2014). The regulatory reforms that have been advocated include reducing the limitations on business activities by charities (which are restrictive and confusing in the Canadian context); clarifying the fiduciary duties of boards of directors (Richardson, 2016; 2013; Bouri et al., 2018); facilitating program-related investing by foundations (Evans and Petrovits, 2013; Lilly Family School of Philanthropy, 2013; Smith, 2016); establishing mechanisms for resolving disputes when impact investing falters (Burand, 2015); creating "bespoke" social finance regulators (Fletcher, 2011) and requiring greater transparency in reporting impacts and risks (Bouri et al., 2018). Although such measures were mentioned and generally supported by participants in our study, the regulatory regime was not viewed as a primary hurdle to those seeking to succeed in this market. According to the ED of a nonprofit loan fund aligned with high-net worth philanthropic investors, "I don't think there needs to be change in regulation so much as an opportunity for thinking creatively around how to attract retail investors into the space." It has to be noted that our sample is skewed, however, as the nonprofits have already overcome any major regulatory limitations to participate in SII, and there may be very real impediments for organizations not yet in the SII market.

In contrast, the participants had strong views on how public policy could enhance SII, recommending expanded social procurement practices, tax incentives for social investments, creation of social enterprise loan funds, opening participation in the provincial CED investment funds to nonprofits (which are currently restricted to for-profits), establishing low profit, limited liability corporate forms (as exist in the UK, US states and two Canadian provinces) and encouraging government to adopt coherent and assertive strategies for promoting social investment. Above all, there was a consensus that governments must work at catalyzing social investment by building infrastructure and demand-side capacity. As one respondent said, "SII is going to be a very slow developing area unless government comes to the table with capital and starts putting some of its own capital into funds and structures to bring it to scale so that they can then attract institutional capital." These pension and investment funds have untapped potential, but their investment opportunities are often limited because the projects that currently exist are quite small, due in part to limited capacity of investees, and they need to be scaled up. In addition, government involvement (for example through "first loss" capital or layering their capital at a lower rate of return) is often a necessary means of de-risking investment and thus promoting the injection of institutional capital. Where the financial risk is uncertain but expected social returns are high, as occurs when innovation is untested, philanthropy may still need to be the first in and remain so for a substantial period before private capital can be mobilized.

Investment potential in both affordable housing and CED is about to change quite significantly in Canada. After decades of reluctance to support housing infrastructure, in 2018 the Canadian government committed $ CDN 40 billion (about $ US 30.1 billion) over ten years, with expectations of additional provincial contributions, to a national housing strategy aimed at cutting homelessness in half and supporting construction of up to 100,000 new affordable houses (Government of Canada, 2018). A co-investment fund of $ CDN 7.5 billion will provide low-cost repayable loans, as well as capital contributions, to nonprofits, cooperatives and Indigenous peoples to build affordable housing. Community development is also experiencing a policy and funding renaissance, particularly in the major cities due to policies supporting community benefit agreements (CBAs) and social procurement tied to major physical infrastructure development. The federal and two provincial governments have enacted legislative requirements that major new public infrastructure projects, for which billions of dollars are committed, include CBAs negotiated with the local communities. These agreements are intended to provide training, apprenticeships and jobs to under-represented groups and procurement opportunities for social enterprises and small-to-medium sized business operated by charities and nonprofits (Infrastructure Canada, 2018). In addition, a task force appointed by the federal government recently announced a long awaited social finance and innovation strategy that recommends filling gaps in "social finance ecosystems" by building capacity and business skills of charities, nonprofits and other social purpose organizations, reducing regulatory barriers to operating social enterprises, further supporting social procurement, investing in intermediaries and infrastructure and establishing a social finance fund to develop the ecosystem (Social Innovation and Social Finance Strategy Co-Creation Steering Group, 2018). As our study has demonstrated, and as is increasingly being reflected in these emerging initiatives, the expansion of SII needs to engage the public, private, philanthropic and nonprofit sectors and address barriers on the demand side, rather than merely expand the supply of capital.

Study Limitations

As a means of understanding barriers to participation in SII experienced by nonprofits and social enterprises, the methodology of interviews is informative, but, also limiting. Our approach was to focus on the organizations and intermediaries that are already in or ready to participate in SII, and we have not assessed what might be quite formidable barriers for smaller or less experienced nonprofits. While our study includes the major intermediaries and large providers in both housing and CED, it does not tap into the smaller or niche-based intermediaries in CED, which is a more differentiated and fragmented field. Although we captured the views of the major players, the sample size does not facilitate analysis of differences by place to support our argument that place – as a defining component of a subsector – affects the ecology of SII. Our focus is also on understanding *perceived* barriers and opportunities, but the study did not compare experiences against "objective" measures of success, such as amount of financing raised through SII or comparative impacts among the investees.

Housing and CED are not necessarily representative of all fields of impact investing: both are place-based and well tested models that are not highly dependent or affected by new, disruptive technologies as are other subsectors. Finally, investment opportunities and actors are changing quickly, so that the barriers we identified may soon be lowered and new ones raised as participation becomes more widespread on both the supply and demand side. A field as dynamic as social impact investing will require regular updates.

Conclusion: Inching toward Impact?

The potential for social impact investing to inject massive amounts of new private capital into the third sector and enable it to achieve greater impact is no doubt impressive. Although SII may not yet have reached the big bang status expected of it, both supply and demand are expanding rapidly. A multitude of metrics have been devised for different areas of SII, but there has been little exploration of SII from a nonprofit perspective or of the differences on the demand side across the subfields of SII. Yet, the ability of nonprofits and social enterprises to fully participate in SII is affected by key parameters of the subsector, notably by the scale of investments required, the degree of place attachment, the need for radical innovation and the configuration of intermediaries.

Inadequate organizational capacity has been identified in a general way as an impediment to entry into the SII market, but our study seeks a fuller and more nuanced understanding of perceived barriers, accounting for differences across subsectors. Focussing on housing and CED, our analysis points to three less visible but nevertheless significant barriers: lack of knowledge of the market; lack of financial literacy, and challenges of measuring and valuing social impacts. The surprising findings are the limited use of impact metrics and evaluation, and the emphasis on financial over social returns by the intermediaries and investors, particularly in affordable housing. Although standardized, subsector-specific metrics intended for global use are available, the Canadian SII community had not yet seized on their value. Indeed, the IRIS metrics were not being used at all. Perhaps this reflects that, to date, the intermediaries have been focused on building the supply side of financing, and that a new type of intermediary may be required to enhance how we treat social returns.

SII proponents tend to assume that, seeing the opportunities SII presents, charities, nonprofits and social enterprises can readily develop the requisite capacities and skills, or perhaps that private philanthropy will support these. The ability to acquire the staff expertise, technology and sophisticated management systems – often labelled as 'overhead' – to develop sound impact measurement, as well as to manage new forms of financing, is hindered by a public and funder bias of keeping nonprofits' administrative costs low. Public perception too often equates effectiveness with low administrative costs, thus generating a systematic under-investment in the necessary infrastructure, leading to a "starvation cycle" that limits their performance and ability to scale (Gregory and Howard 2009; Lecy and Searing 2015; Wixley and Noble, 2014). Until the "overhead myth" is dispelled, the demand side of SII is likely to under-perform.

If SII represents a paradigm shift in which investment is inextricably linked to impact, there is an important caution that extends well beyond the mechanics of supply and demand. As SII expands, the value of third sector organizations increasingly will be assessed on standardized measurement and commodification of the goods and services they produce so these can be traded on social exchanges, thus becoming indistinguishable from the private sector (Berry, 2016). In this process, we risk devaluing, and at worst crowding out, their other contributions: representing members and constituencies; advocating for social change and participating in public policy; and serving as sites for the practice of citizenship. Under such a scenario, our society would be much poorer, no matter the richness of impact investing. Hence, our caution is not to diminish these other important contributions of the third sector.

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NOTES

[1] In Canada's largest province the waiting list for affordable housing has increased by more than a third over the past 12 years, with 171,000 on a waiting list for rent-geared to income housing (ONPHA, 2017), and the national estimate is that 1.7 millions families, out of a total population of 36 million do not have housing that meets their basic needs (National Strategy 2018).

[2] While affordable housing has different meanings, housing is generally considered affordable if the cost is less than 30 per cent of before-tax household income (CMHC 2017; Joint Center for Housing Studies of Harvard University, 2017); in practice, this often entails housing offered at least 80 percent below market.

[3] The landscape of nonprofit housing providers, particularly in social housing, looks very different from one Canadian city to another. For example, Toronto Community Housing (the largest in the country and second only to New York City in North America) operates 60,000 units of housing serving an estimated 110,000 tenants. The second largest in Ontario, the Ottawa Community Housing Foundation operates 15,000 units for 32,000 tenants. Both are wholly owned by the municipal governments. In other cities, the market is fragmented, and the affordable housing market is less concentrated than that of social housing, involving a mix of non- and for-profit providers.